

Message Text

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C O N F I D E N T I A L MANILA 14063

E.O. 11652: GDS

TAGS: ECOM, ETRD, EAGR, RP

SUBJECT: SUGAR - IMPLICATIONS OF PRESIDENTIAL DECREE 579

1. SENIOR MEMBERS OF VARIOUS WELL-ESTABLISHED SUGAR CONCERNS OUTLINE THE MAJOR EFFECTS OF PD 579 AS (A) CREATION OF A SINGLE SELLING AGENT FOR PHILIPPINE SUGAR UNDER THE SOLE JURISDICTION OF MALACANANG; (B) PRE-EMPTION BY GOVERNMENT OF THE GREAT BULK OF THE WINDFALL PROFIT ELEMENT IN CURRENT SUGAR PRICE; AND (C) DEFACTO TRANSFER OF CONTROL OVER THE WHOLE INDUSTRY FROM PRIVATE TO PUBLIC SECTOR BY VIRTUE OF THE SWEEPING FINANCIAL POWERS VESTED IN THE PHILIPPINE NATIONAL BANK (PNB).

2. NOTING THAT PD 579 PLACED BOTH DOMESTIC AND EXPORT SUGAR TRADE EXCLUSIVELY IN THE HANDS OF THE PHILIPPINE EXCHANGE COMPANY (PEC), A WHOLLY-OWNED SUBSIDIARY OF PNB, SOURCES INDICATE THAT CENTRALS WOULD RECEIVE A TWO-TIERED PRICE OF (A) P49.80/PICUL (63 KILOS) FOR DOMESTIC SUGAR, AND (B) P180/PICUL FOR EXPORT SUGAR. THE TWO AVERAGE OUT TO A P134/PICUL BLEND PRICE FOR THE WHOLE CROP. THIS IS AN EFFECTIVE AVERAGE PRICE OF 15 U.S. CENTS PER POUND, OR AN EXPORT PRICE OF ABOUT 19CENTS/POUND. ON THE BASIS OF AN FOB PRICE OF 38.5CENTS/LB. CONTRACTED ON FIVE SHIPS LOADED LAST WEEK, GOP WOULD TAKE ABOUT 19.5CENTS/POUND OFF THE TOP ON SHIPMENTS TO THE U.S.

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3. SOURCES HAVE COMPLAINED THAT AT THE RETURNS NOTED ABOVE, THE CENTRALS WERE NOT BEING GIVEN A SUFFICIENT MARGIN TO AMORTIZE OBLIGATIONS. AT THE DOMESTIC PRICE, ONE SOURCE ASSERTED ALL WERE LOSING MONEY.

4. COMMENT: CALCULATING THE GOVERNMENT TAKE ON SUGAR HAS BECOME A POPULAR SPORT, AND THE RESULT DEPENDS, OF COURSE, ON THE AVERAGE MARKET PRICE ASSUMED. ON THE WHOLE 1973-74 CROP, THE AVERAGE EXPORT PRICE WAS 13.6CENTS/LB; ATTAINED LARGELY BEFORE PRESENT TRADE ARRANGEMENTS WERE ESTABLISHED AND REFLECTING A FAIR RETURN, EVEN TO RELATIVELY INEFFICIENT CENTRALS. FOR 1974-75, THE OFFICIAL TAKE CAN BE QUITE LARGE, WITH A CROP NOW ESTIMATED AT 2.9 MILLION SHORT TONS, THE COUNTRY ANTICIPATES EXPORTS OF ALMOST 1.9 MILLION. IF THE AVERAGE FOB PRICE RUNS CLOSE TO LAST WEEK'S SHIPMENTS, THE GROSS WOULD BE CLOSE TO \$1.5 BILLION ON WHICH THE OFFICIAL TAKE WOULD BE MORE THAN \$750 MILLION.

5. THE CENTRALS WILL BE FAR FROM HUNGRY, OF COURSE, IF THE FOREGOING PERFORMANCE EMERGES. AT A BLEND PRICE OF 15CENTS, THEIR TOTAL RETURN FROM THE CROP WILL REACH \$850-900 MILLION, AGAINST A TOTAL CROP VALUE OF ABOUT \$415 MILLION IN 1972-73. AT LEAST THREE CENTRALS ARE KNOWN TO MAKE A 15-20 PERCENT PROFIT ON THE DOMESTIC PRICE. POVERTY, THEREFORE, IS NOT THE PROBLEM, AND THE VOTE OF KNOWLEDGEABLE OBSERVERS, WHO RECOGNIZE THE WRENCH OF OFFICIAL INTERVENTION, IS THAT MALACANANG WILL PROBABLY MAKE BETTER USE OF THE WINDFALL THAN WOULD THE OLIGARCH OWNERS OF THE CENTRALS. HOWEVER, THERE WILL PROBABLY NEVER BE AN ACCURATE ACCOUNTING FOR THE ACTUAL USE OF THESE FUNDS.
SULLIVAN

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